

Trust matters



seo economic research

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Trust matters

The Dutch trust industry revisited

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Summary

The Netherlands has a long tradition in international trade. There is a sophisticated network of trade supporting industries and an internationally oriented regulatory environment. The Netherlands is an attractive place for multinational operating corporations, thanks to an extensive network of bilateral tax agreements, the participation exemption and, most important, a stable and reliable fiscal climate with adequate supervision. The Dutch trust industry provides multinational operating companies with an infrastructure for international financial and fiscal planning, in which the Netherlands acts as a pivot point.

In 2009 155 trust firms (by 2011: 176) operated in a legal regime, under supervision of the Dutch Central Bank. These firms serviced about 16 400 international clients, who together held just over 20 000 legal entities in the Netherlands. The trust firms, together employing about 2 200 professionals and clerical staff, provide management and corporate services to their clients, and coordinate professional services: legal and tax advice, auditing and banking services. These service providers offer another 1 300 jobs in the professional business and financial industries. Next to this highly qualified employment, the benefits for the Netherlands consist of just over one billion euro in taxes (in 2009), extra demand for business travel and hospitality services, and above all a strong position as a hub in international financial services and international trade.

The trust sector appears to be crisis proof. Regardless the plummeting of international trade, the client base (measured in the number of clients and the number of legal entities managed) remained stable between 2006 and 2009. Turnover of the trust firms services increased, and employment grew accordingly, mainly due to higher requirements on substance and compliance. These requirements make the Netherlands more expensive as a location for domicile for multinational companies.

1 Introduction

This report is an update of Van den Berg *et al.* (2009), who sketched an outline of the trust industry in the Netherlands: the economic rationale behind trust services, and the way and scale these services are implemented. Since economic theory has not fundamentally changed since then, the update concerns mainly the figures: firms, clients and turnover. The reason for being of the trust industry is still there: transaction costs still do occur, trust and management services still fulfil an important role in facilitating international trade. In the Netherlands, the regulatory regime on trust firms is tightening: regulators demand more proof of the integrity of trust offices and their clients.

The world however has changed since 2008. A major crisis hit the world economy, leading to a plummeting of international trade. As it appears, the trust industry has not really suffered from the international crisis. The client base remained intact, and sales increased. The latter, perhaps surprising, development is mainly caused by higher requirements on substance. While volume and turnover associated with the management of international financial flows decreased, there was a sharp increase in volume and turnover of management and administrative services. These compliance services benefit the trust firms in the short run, but in the long run they make the Netherlands more expensive as a location for domicile for multinational companies.

Nevertheless, the trust industry remains a unique niche, combining and adding to the strength of two vital industries in the service driven Dutch economy: professional business services and financial services. The share of the trust industry (trust firms and suppliers combined) in the number of jobs in these industries may be small (just above about one percent), but its place at the junction of professional, legal, tax, auditing and banking services makes it a real pivot sector.

This update is based on a survey among trust firms, and interviews among key players. We thank the interview partners for their time, effort and insights, and the respondents to the survey for their cooperation. Delegates of the boards of the two industry organizations, VIMS and DFA, played their guidance part in a committed and inspiring way.

Peter Risseuw

2 The Dutch trust industry

Van den Berg et al. (2009) introduce the (Dutch) trust industry. What role does it play in international trade and where does the industry stand in the Dutch financial sector? This chapter presents a short recapitulation of the economic rationale of the trust industry.

2.1 Trust services

Trade in general leads to higher welfare, as was proved by David Ricardo in 1817. In order to maximize its benefits, trade should take place as frictionless as possible. In practice, it does not. International trade is hampered by all kinds of barriers: physical restrictions, regulations, taxes, etc. Overcoming these barriers comes with costs: transaction costs. Due to transaction costs, there is less international trade than in a frictionless economy, and global welfare is at a lower level than it could be.

Transaction costs can be defined as all costs made in trade transactions, either as an exchange of property rights in a market transaction, or as an exchange of responsibilities in a hierarchical situation. Transaction costs occur when there are barriers to purchasing or selling goods and services, to changing the location of production and to splitting up the supply chain. Hard transaction costs relate to costs that are readily perceptible and quantifiable, such as transport charges, import levies and customs authorities tariffs. Soft transaction costs are harder to observe and measure. One can think of all kinds of costs of making and checking contracts, information costs, costs stemming from cultural differences and communication failures, tacit knowledge on legal procedures, formation of trust and reputation, network building, costs associated with risks and with rules and regulation in order to reduce risks, security requirements, etc.

Because of transaction costs, of which taxes are a special case, the choice for a country where financial assets are legally established, has a large financial impact on multinational companies (MNCs). Location choice determines the place where financial transactions originate, and where taxes are paid. Trust and management services are a means for international operating companies (and other kinds of organizations) to reduce the costs coming with financial transactions. Providers of these services make up a infrastructure for MNCs, in which they can structure international financial flows in such a way that transaction costs along the flow are made manageable.

In order to do so, financial structures are embedded in legal entities, taking domicile in the country of the trust service provider. For these legal entities, the legal and fiscal rules of the country of domicile apply. Legal entities are owned by international operating companies, and managed by trust firms. Trust firms deliver administrative and management services, and coordinate legal and tax advice and other services.

The arguments for choosing domicile for financial structures in a certain country, e.g. the Netherlands, can be manifold. The costs of arranging international financial transactions are partly defined by the tax burden in the chosen country of domicile, but that is not the decisive element. Total transaction costs consist of taxes and other tariffs, the efforts needed for fulfilling regula-

tory requirements, etc. Besides the level of transactions, manageability and predictability of costs are essential issues. Political reliability and fiscal and stability are key issues in the domiciliation choice of multinational companies.

2.2 The Netherlands as a trust hub

The Netherlands has a long tradition in international trade. There is an internationally oriented regulatory environment, and a sophisticated network of trade supporting industries (WRR, 2003). The strong position of the Netherlands as trust service cluster is to a large extent historically determined. Operating from a small and open economy, Dutch multinationals like Shell and Philips were confronted with double taxation: both on the income of subsidiaries overseas and on income (dividend payments by subsidiaries) of the parent company in the Netherlands. In order to prevent of double taxation, the Dutch government entered into tax treaties with foreign governments (Lugard, 2005). The internationally oriented fiscal legislation has helped the Netherlands in developing a large and sophisticated financial services industry.

By doing so, the Netherlands has become an attractive place for multinational operating corporations. Strongholds of the Netherlands are an extensive network of bilateral tax agreements, the participation exemption and, most important, a stable and reliable fiscal climate with adequate supervision. The feasibility of advanced tax rulings between multinational companies and the tax authority, reduces uncertainty about the fiscal consequences of the international corporate and tax planning of MNCs.

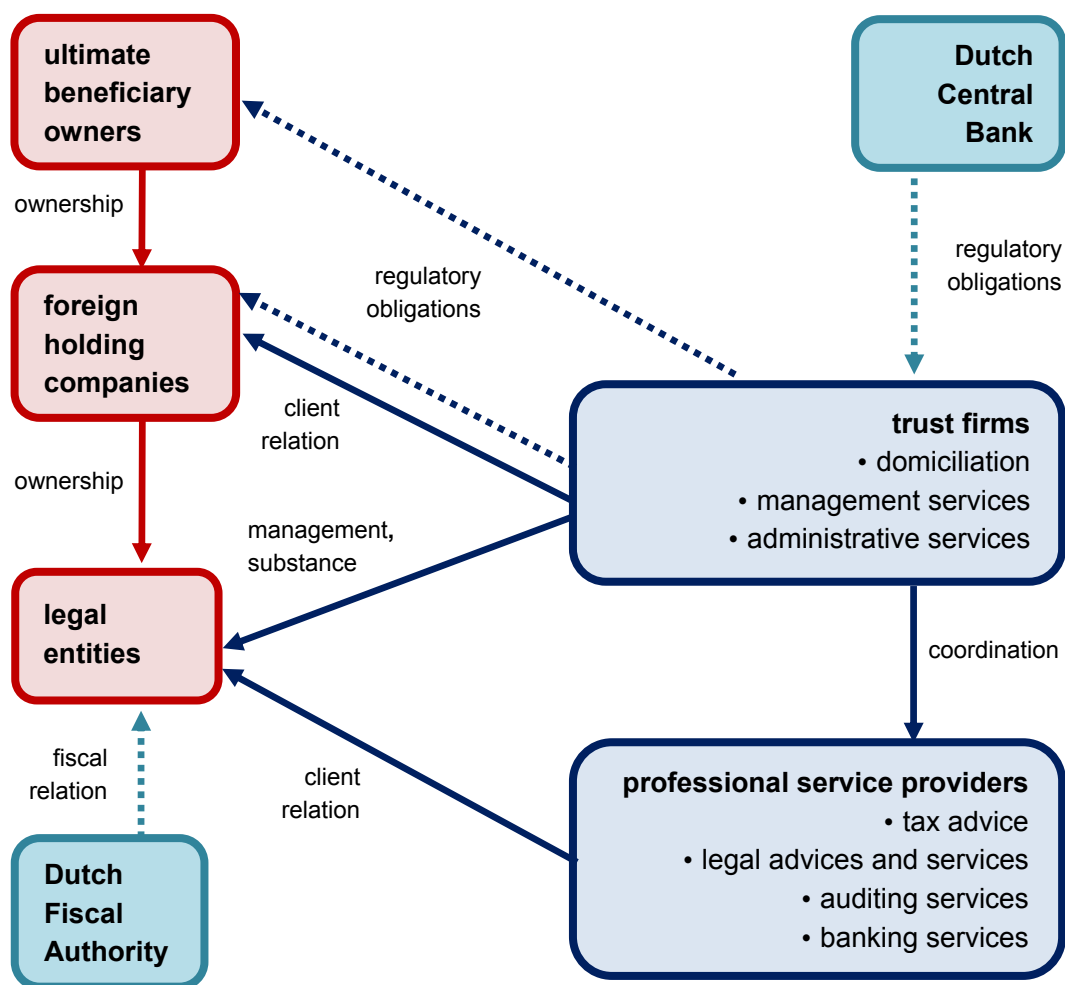
Trust services are knowledge intensive services, demanding skilled, experienced and specialized personnel. The outsourcing of trust services comes with economies of scale. The clustering of trust offices reduces transaction costs through their network facilities. In other words, the Netherlands offers an international business infrastructure that deals effectively with (hard) transaction costs.

The Dutch trust sector also enables an infrastructure for soft transaction costs. International financial centers and their institutions are essential hubs for companies operating in international markets. Thanks to these hubs, companies can handle international financial flows in a cost effective way. Tax planning, e.g. making sure that activities, flows and profits are not double taxed, is an important component of this process.

Trust firms themselves deliver mainly management and corporate services, and coordinate professional services like tax advice, legal advice, auditing and banking services. These services are provided by specialized firms, like tax advisors, notaries, auditing firms and banks. The trust sector thus operates at the junction of professional, legal and financial services. These industries are important sectors in the Dutch economy, especially in Amsterdam. In 2009, the combined financial and legal sectors in the Netherlands counted approximately 310 000 jobs, 57 000 of them located in Amsterdam.¹ The share of the trust industry (trust firms and suppliers combined) in the number of jobs is small (just above about one percent), but its place at the junction of professional, legal, tax, auditing and banking services makes it a unique pivot sector.

¹ Source: Lisa.

Figure 1 Players in the trust services industry



2.3 Legislation and supervision

Regardless the economic benefits of trust services, in the public debate it is quite common to treat offshore finance and trust services in a context of money-laundering, tax evasion and financing terrorist activities. The status of the Netherlands as a supposed tax haven is a recurrent headline in the newspapers.² This distrust is countered by the Dutch regulatory regime, which aims at preventing the flow of 'bad money' through the Netherlands. Regulation is anchored in the *Act on the Supervision of Trust Offices* (ASTO)³, effective since 2004.

The primary objective of ASTO is to promote the integrity of the Dutch financial system in general, and the trust industry in particular. Trust firms work under a *Know-Your-Customer* regime: they are obliged to identify their clients and their clients' shareholders (UBOs: Ultimate Beneficiary

² This opinion can also be found in academic research, see for instance Unger et al. (2006). The common line of reasoning in such publications is that the trust infrastructure *may* allow for malpractice, and therefore that the trust industry as a whole is undesirable. However, these papers fail in presenting examples of existing malpractice.

³ In Dutch: *Wet toezicht trustkantoren (W/tt)*.

Owners), and are forbidden to accept clients and UBOs that cannot confirm their bona fide status. In order to be allowed to provide trust services, trust firms need a license provided by the Dutch Central Bank (*De Nederlandsche Bank*: DNB). DNB assesses the policymakers of trust offices for trustworthiness and know how.⁴

Under ASTO, the trust offices, monitored by the Dutch Central Bank, act as gatekeepers for the integrity of the entire Dutch financial sector. The system of rules and monitoring reduces the risk of reputation losses for trust offices, their clients, and the Dutch financial sector in general. By enhancing reliability and trustworthiness, the regulatory regime contributes to the attractiveness of the Netherlands as a financial hub, and to the growth of the Dutch financial industry in general.

Compliance is intensive: DNB actively monitors trust firms in their operations. In 2010, the Dutch Ministry of Finance evaluated ASTO.⁵ The Ministry concludes that the main aim of the Act (enhancing the integrity of the financial system by regulating the trust industry) was reached. Trust firms fulfill their role as gatekeepers adequately. The Ministry however worries about the scope of the Act, since there are signals of malpractice: firms that remain outside the regulation, offering services aimed at tax evasion by Dutch firms and citizens. While ASTO-licensed and compliant trust firms contribute to the integrity financial markets, these so called *virtual trust offices* remain outside the law.⁶ A revision of ASTO, to be effective by 2012, will cover the activities of virtual trust offices, and bring these providers under the monitoring of the Dutch Central Bank.

⁴ *Vide* www.toezicht.dnb.nl.

⁵ Ministerie van Financiën, 2010.

⁶ These *virtual trust offices* are fundamentally different from trust offices in the regular sense. Regular trust offices offer an infrastructure for internationally operating firms to manage financial structures and fiscal obligations. Virtual trust offices offer ways for Dutch citizens to bring taxable money outside the reach of the Dutch tax authorities.

3 The trust industry in 2009

This chapter sketches the economic contours of the Dutch trust sector in 2009, as compared to the findings in the first round, in 2006. Figures are presented at industry level, extrapolated from a survey among trust firms. See appendix A for an elaboration on the applied extrapolation technique.

3.1 Main developments

Credit crunch

The international credit crisis is the most important economic development in the past years. The decline of international trade caused a decrease in the demand for international financial services. The business of important customers for trust firms, like private equity firms and international real estate investors, plummeted, just like the market for securitizations.

The credit crunch not only caused a contraction in global output and trade, it also contributed to a shift of the relative weight in the world economy from the Europe and the USA towards emerging economies, especially the so called BRIC countries: Brazil, Russia, India and China.

Regulation

In the Dutch regulatory regime on trust services there were some adaptations. Pure domiciliation services (the plain provision of a postal address, without additional services) were excluded from the ASTO-regime: for these services a trust license is no longer required.

The requirements on *substance* however, are being intensified: legal entities in the Netherlands have to show more tangible activities in order to qualify for the status as *special financial institution* (SFI). For the trust firms, this means an increase in services, especially services related to domiciliation, management and administration. Total turnover of the trust firms increases. For MNCs who keep legal entities in the Netherlands, the costs of compliance are rising.

Other financial suppliers (like banks, notaries, lawyers) have gradually more obligations to identify the UBOs of their own clients. Here the gatekeeper function of the trust firms comes in useful, since for a lot of clients they have already carried out an identity check. That helps to keep the administrative costs of other financial suppliers within limits.

The requirements to establish a Limited Company (BV) are to be relaxed. For the trust industry, and for multinational companies choosing to domicile in the Netherlands, the intended introduction of the so-called 'flex-BV' is not necessarily a beneficial development. Of course, lower costs for establishing new legal entities mean lower transaction costs. On the other hand, in the rules for the flex-BVs as they are proposed, personal financial liabilities for directors will be extended, even for decisions that commonly fall directly under share holder's discretionary competence, like dividend payments. Such liabilities introduce new transaction costs for establishing legal and fiscal entities in the Netherlands.

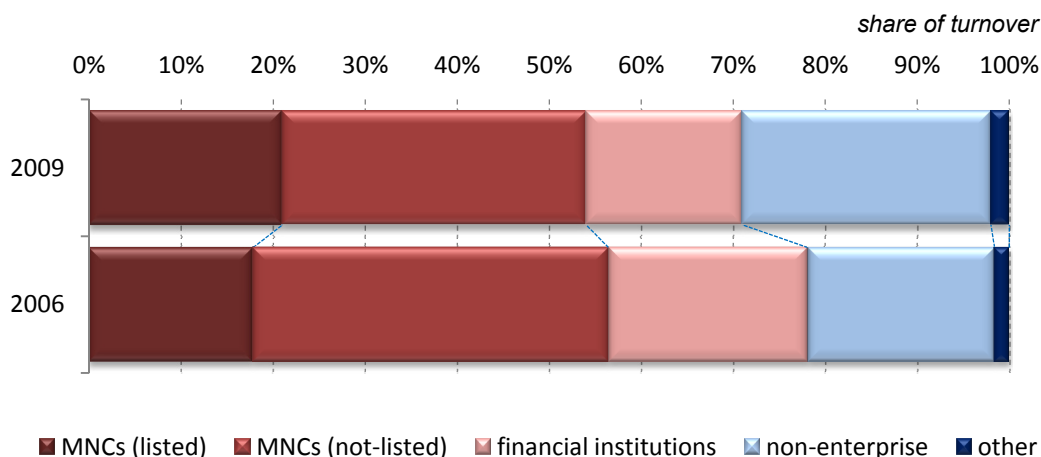
3.2 Clients and UBOs

Trust companies manage local entities on behalf of foreign shareholders. The clients of a trust firm are the holding companies of these legal entities. Trust firms deal directly with their clients, but not necessarily with the (indirect) shareholders of their clients, the so called *ultimate beneficiary owners* (UBOs). However, since trust offices are required to identify UBOs before doing business, the ultimate beneficiary owners play an important role in trust regulation.

In 2006, there were about 20 000 entities, held by approximately 16 000 clients. In 2009, the Dutch trust firms served about 16 400 clients, who together held about 20 100 legal entities, that is on average 1.2 legal entities per client.⁷ The trust industry appears to be quite crisis-proof: despite the slump in international trade, net entry and exit of clients and entities is low.⁸

The number 20 100 of legal entities is consistent with the results of a survey by the Dutch Central Bank in 2010/2011. It should be noted that these are not all the foreign owned legal entities in the Netherlands, but only those managed by ASTO-licensed trust firms. About 13 000 legal entities qualify as *Special Financial Institutions* (SFIs, in Dutch *Bijzondere Financiële Instellingen*: BFIs) in the Netherlands (DNB 2009). In 2006, there were according to *De Nederlandsche Bank* (DNB, 2007) about 10 000 SFIs in the Netherlands, 75% of which were serviced by trust firms.

Figure 2 Corporate clients dominate the portfolio of trust firms



The clients of trust offices can broadly be categorized into enterprise and non-enterprise clients. The majority of the clients have an enterprise background, see Figure 2. Not-listed MNCs account for about one third of total turnover, financial institutions for about one sixth and listed MNCs for one fifth. About a quarter of trust offices' turnover is accounted for by non-enterprise clients. 'Other clients' (two percent) are amongst others government related organizations and charities. There is no strict distinction between enterprise clients and non-enterprise clients, say

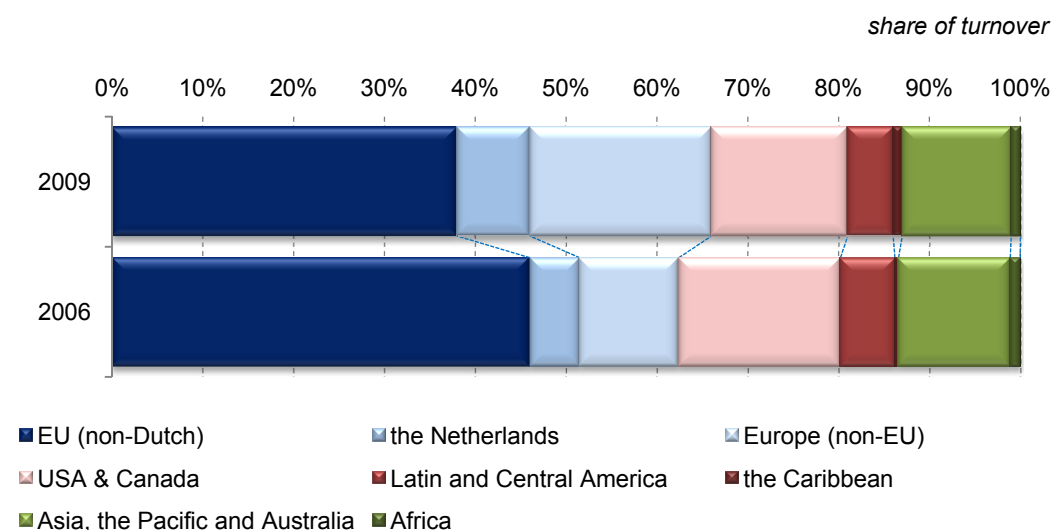
⁷ We present results on 2009 in comparison with the results of the preceding study (Van den Berg *et al.*, 2008), regarding the book year 2006. It should be noted that both results are based on extrapolations: small differences in outcomes do not necessarily indicate a structural shift in the trust business.

⁸ Also with a stable client base, there is always entry and exit of entities. A rule of thumb says that the average lifetime of a legal entity is about seven years. Every year about fourteen percent of the entities managed by trust firms is refreshed.

wealthy families or individuals.⁹ Wealthy families or individuals may act as major shareholders of large firms, but even if the trust entity consists of ‘free’ family capital, it is always structured in a corporate fashion. The decrease in the share of non-listed multinational companies and financial institutions in Figure 2, reflects the devastating impact of the crisis on private equity firms and the market for securizations.

The core business of trust firms is delivering management services to corporate entities with foreign shareholders. Yet, about eight percent of turnover is derived from Dutch UBOs. Services rendered to these ‘domestic’ clients are merely administrative. Europe is the most important market for the sector: 46 percent of turnover is accounted for by ultimate beneficiary owners (UBOs) located in the EU (including the Netherlands), see Figure 3. Another twenty percent is derived from UBOs in European non-EU countries. The USA and Canada account for fifteen percent of turnover, UBOs in Asia, the Pacific and Australia for another twelve percent. Latin and Central America, the Caribbean and Africa are small markets, together they stand for seven percent of turnover. As Figure 4 shows, the share of UBOs in non-EU countries is increasing, showing a swap with customers from within the EU (but see also footnote 8). The advance of the Far East and Australia in the world economy is not (yet) reflected in the trust firms’ client base.

Figure 3 Europe is the main market for trust firms



Special Purpose Vehicles (SPVs) are different from SFIs, in a sense that they are single-purpose entities, managed by the trust firm. In the case of SPVs, beneficiaries technically do not own the legal entity involved.¹⁰ Since SPVs are often used for securitizations, it comes as no surprise that the share of turnover from SPVs declines: from twelve percent in 2006 to eight percent in 2009.

⁹ DNB reports 1.7 percent of legal entities having a *politically exposed person* as UBO. This is just one category of non-enterprise clients.

¹⁰ Gorton & Souleles (2005): «An SPV (...) is a legal entity created by a firm (...) by transferring assets to the SPV, to carry out some specific purpose, or circumscribed activity, or a series of such transactions. SPVs have no purpose other than the transaction(s) for which they were created, and they can make no substantive decisions; the rules governing them are set down in advance and carefully circumscribe their activities. Indeed, no one works at an SPV and it has no physical location. ... Their administrative functions are performed by a trustee who follows pre-specified rules with regard to the receipt and distribution of cash; there are no other decisions».

3.3 Trust offices and employees

By 2009, 155 trust firms in the Netherlands had been permitted an ASTO-license by the Dutch Central Bank (DNB), fourteen more (an increase with ten percent) than in 2006. In 2011, there are 176 ASTO-licensed firms. Given the stable client base, this entry can be interpreted as a token of increasing competition in the sector. Most entrants are spin-offs from existing firms: experienced account managers start their own company in order to deliver services on a smaller scale and at a lower cost base.¹¹

Most of these firms (about 60 percent) are working owner firms. When trust firms have external shareholders, which counts mostly for the larger firms in the industry, the shareholders are mostly foreign.

Figure 4 Trust firms are mainly working owners' firms

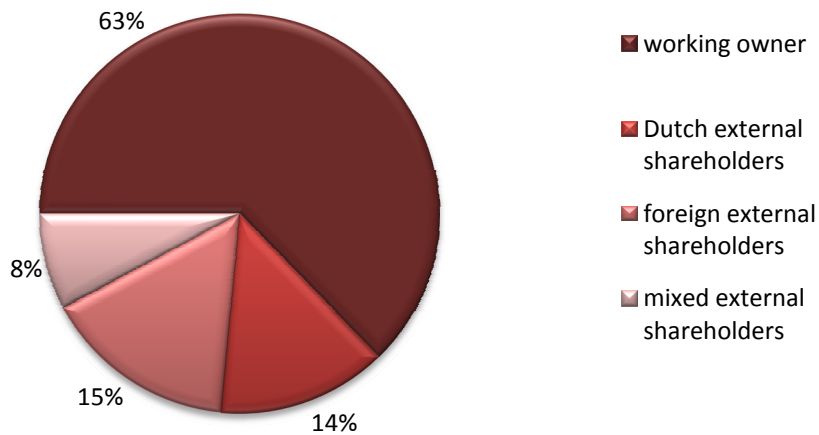
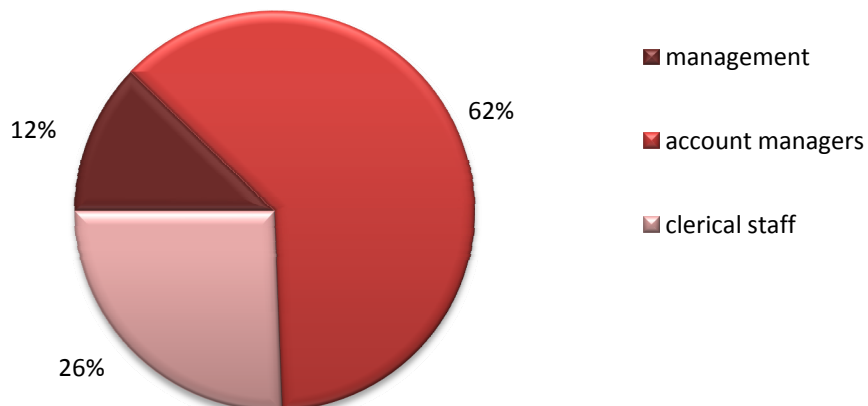


Figure 5 Account managers do the job



¹¹ The concept *trust* has to be taken quite literally. Trust service require mutual trust between client and service provider. Relations between trust providers and clients are personal and long lasting. Clients tend to stick to their account manager.

Together, the trust firms employ about 2200 employees. Firm size in terms of employment varies from 1 to over 400. The average trust office represents 12.5 jobs. Most jobs (62 percent, 1 370 jobs) are filled in by account managers. Twelve percent of the industry population (270 jobs) is manager or working owner. In small firms, management and account management coincide. A quarter of the jobs in the sector are realized by clerical staff.

Being specialized services, trust services are performed by higher educated professionals. One third of the professional staff has an academic education, nearly half of the professionals have a higher professional education. Unsurprisingly, most professionals have an economic or a legal background. The number of fiscal specialists in the ranks is low. Tax advice as a rule is out-sourced to specialized suppliers.

Figure 6 Higher education prevails

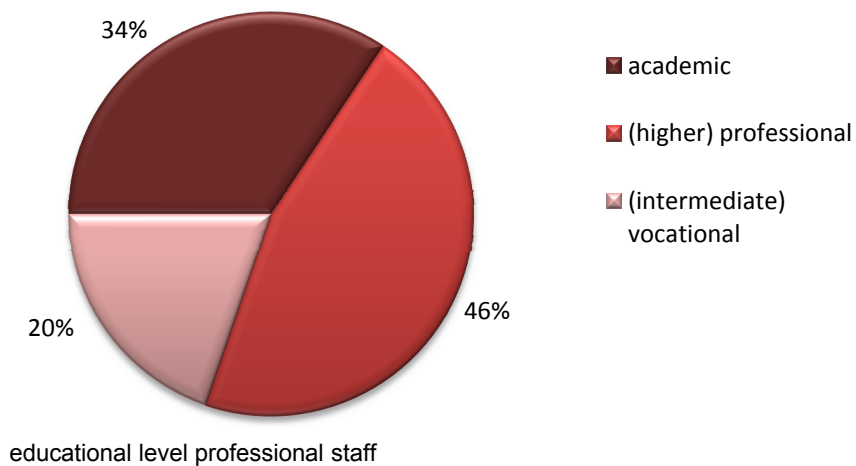
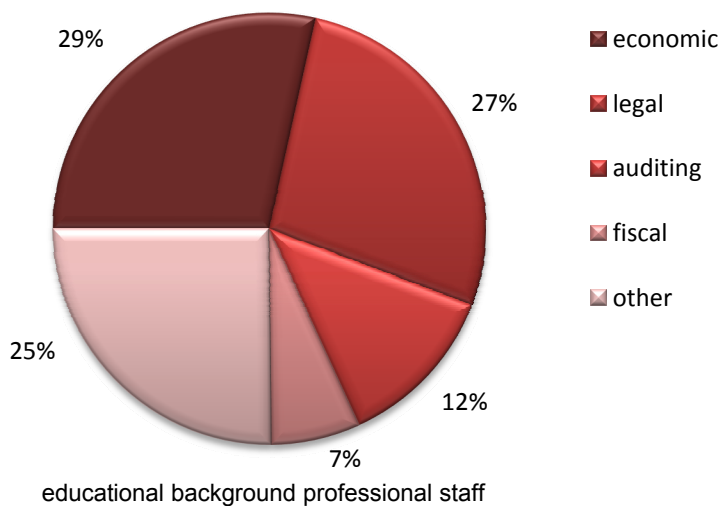


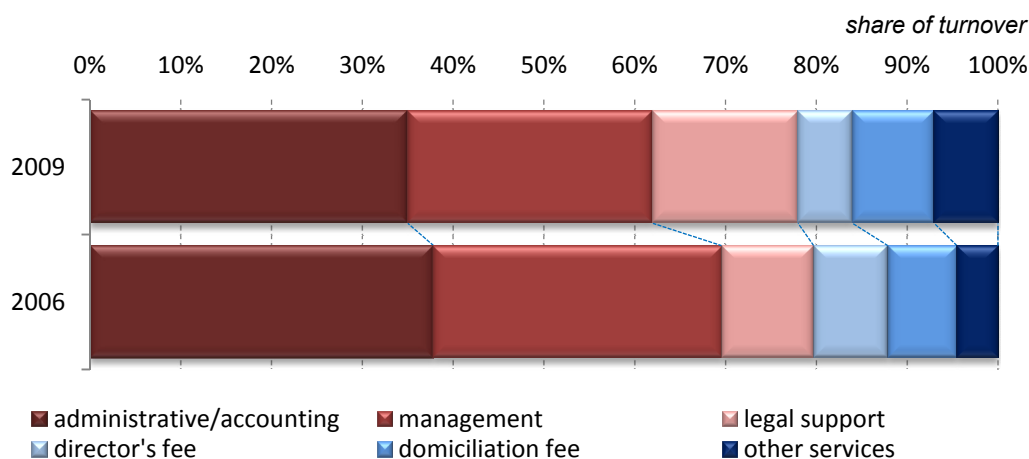
Figure 7 Trust service require economic and legal training



3.4 Services rendered

The reason for being of the trust industry is providing foreign UBOs with an infrastructure for international financial and fiscal planning, with the Netherlands as a pivot point. In this sense, tax and legal advice are the core services of the industry as a whole. However, for trust firms themselves, the core business consists of corporate management and administrative services. With these services trust firms provide clients the necessary substance for their legal entities. Substance services consist of domiciliation, legal support and administrative support. The reward of these services consists of fees for administrative and accounting services, domiciliation fees and directors fees. Total estimated turnover for the trust firms in 2009 amounts to 365 million euro. Administrative services take the largest share, with 35 percent (128 million euro). Management services are good for another 27 percent (99 million euro), and legal services for sixteen percent (60 million euro).

Figure 8 Direct turnover (total 2009 = € 365 million) by type of service

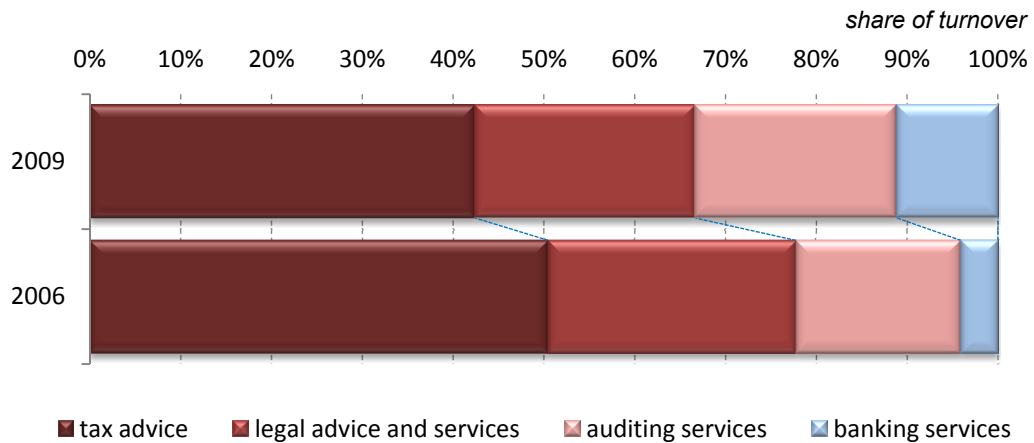


Administrative services consist, amongst others, of the preparation of annual accounts and compliance to fiscal and administrative obligations. Management services contain fulfilling the role of local director of the legal entities and the coordination of professional services, e.g. fiscal, legal, auditing and banking services. These professional services, relating direct to the reason for being of the trust sector as a whole, are provided by specialized firms: tax advisors, notaries, auditing firms and banks. The additional services are performed by approximately 1 300 professionals (including support staff). Thus total employment in the core business of the trust industry amounts to 3 500 jobs, 2 200 direct and 1 300 indirect.

The total turnover of these additional services from external parties, amounts to another 280 million euro, 256 million of which lands in the Netherlands, and 26 million euro overseas.¹² Tax advice, legal advice and transactions, e.g. passing notary deeds, are the most important components of these professional services. Together they make up two thirds of the total fees of external professional parties. Auditing and banking services together count for one third.

¹² It should be noted that services rendered directly by professional service providers to foreign clients, e.g. advice on and establishment of new legal entities, remain outside the scope of this study. Thus, turnover of these service providers is underestimated, both in 2006 and in 2009.

Figure 9 Indirect turnover (total 2009 = € 254 million) by type of service

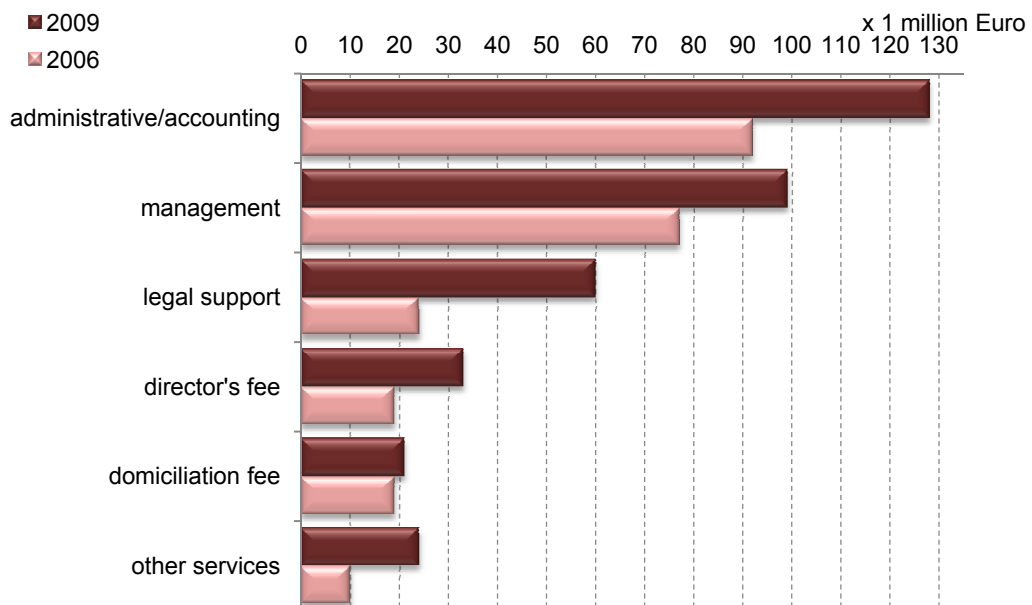


3.5 Development 2006-2009

As stated above, in terms of clients and managed legal entities, the Dutch trust market hardly grew between 2006 and 2009. Given the growth of the number of trust firms, from 141 to 155 (plus ten percent), the total market is spread out over more players – and thus thinner.

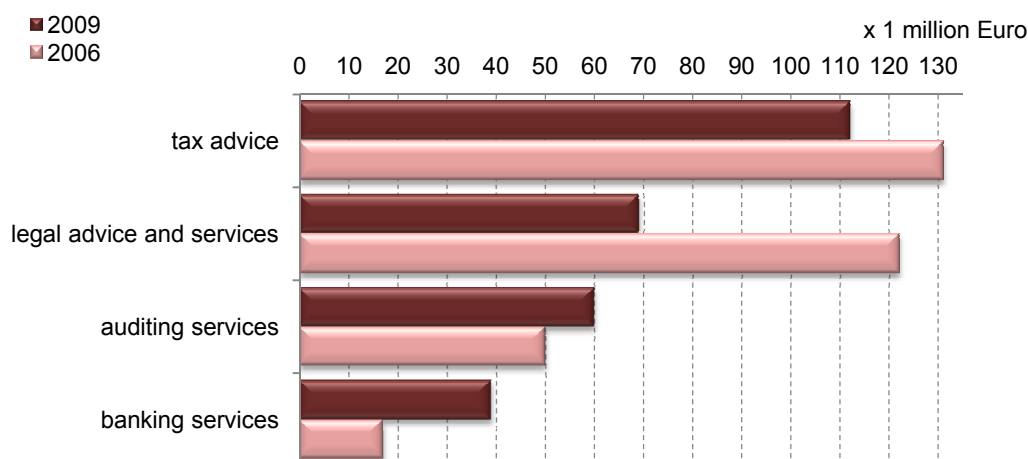
In terms of sales however, the industry has grown considerably. Estimated total turnover of the trust firms grows from 242 million euro to 364 million euro, an increase with 122 million euro, or plus 50 percent. The growth concerns all services, with administrative services and legal support as main contributors: both plus 36 million euro. The main driver of this growth is the increase of compliance and substance demands. Employment with the trust firms grows accordingly, from 3 000 jobs in 2006 to 3 500 in 2009: plus 16 percent.

Figure 10 Turnover trust firms 2006/2009 by type of service



Total turnover of the suppliers of specialized services decreases: in 2006 the estimated total amounted to 320 million euro, in 2009 it is 13 percent lower: 280 million euro. The main differences lie in turnover of foreign based service providers: minus 50 million euro. The decrease nearly entirely concerns legal and notary services: due to the crisis there were less transactions. Turnover of service providers in the Netherlands increases with 10 million euro (plus four percent). The gain is realized in accounting and banking services. Turnover from legal and tax advice services decreases.

Figure 11 Turnover professional service providers 2006/2009 by type of service



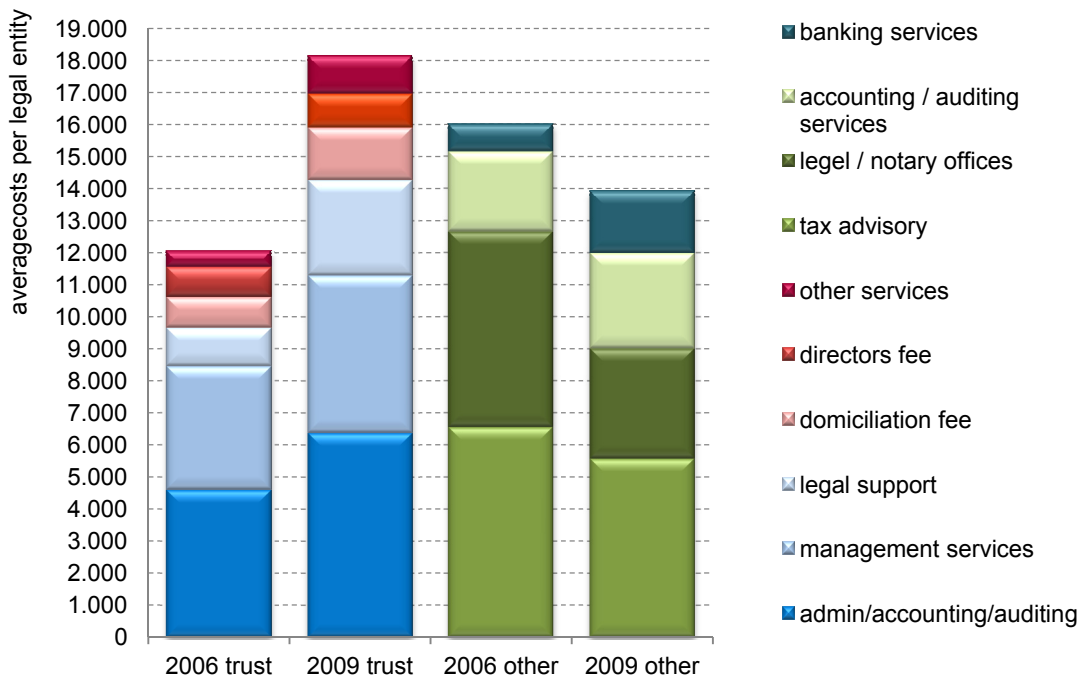
Turnover per entity = costs per entity

Given the stable number of legal entities, the average trust office's turnover per entity increases from 12 000 euro to 18 000 euro, an increase with fifty percent. Average turnover by the other service providers decreases from 16 000 to 14 000 euro.¹³ Figure 11 shows a shift from turnover by (i.e., costs of) services provides by professional services providers to management services, provided by trust firms. On aggregate, in 2009 foreign customers spent 32 000 euro per legal entity for trust and trust related services in the Netherlands, a net increase with 4 000 euro.

The growth of total turnover is a mixed blessing: the turnover of Dutch service providers equals transaction costs for their clients. The increase especially concerns substance and compliance costs: activities necessary to convince the Dutch regulators of the integrity of the legal entities and the trust firms themselves. From the perspective of customers, this makes the Netherlands a more expensive, and thus a less attractive country location for domicile choice. Alas, there is no international benchmark available for the administrative costs per legal entity in competitive environments like Luxemburg, Ireland and Cyprus.

¹³ It should be noted that mean costs per legal entity are *all over mean costs*: the total amount divided by the total number of entities. *Conditional costs*, just for legal entities that make use of the services involved, will be higher.

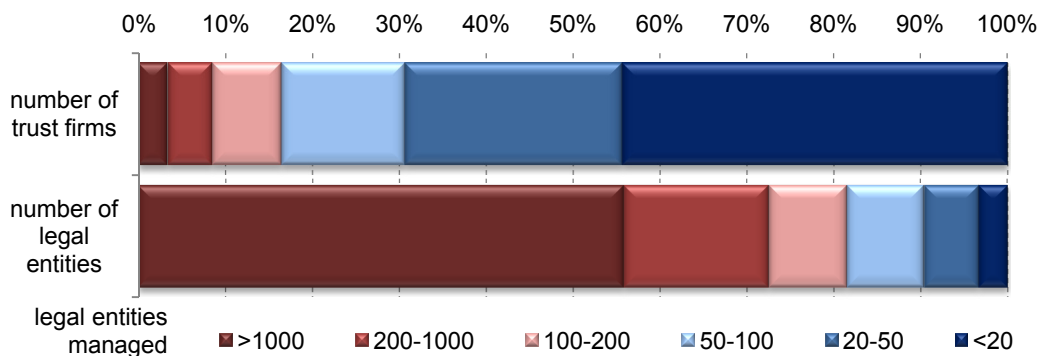
Figure 12 Administrative costs for foreign clients increase



3.6 Market structure

The trust sector consists of a handful of large firms, managing a large number of legal entities, and a large group of medium and small sized firms with a relative small client base. Less than five percent of the trust firms service 1 000 legal entities or more. Together, these trust firms have a market share (measured in the number of legal entities) of about 55 percent. On the other hand, more than forty percent of the trust firms manage less than 20 legal entities. Together these firms have a market share of less than five percent. The *Herfindahl-Hirschmann* index, a common measure to denote the degree of concentration in a market, amounts to 0.6, still indicating a lowly concentrated market.¹⁴

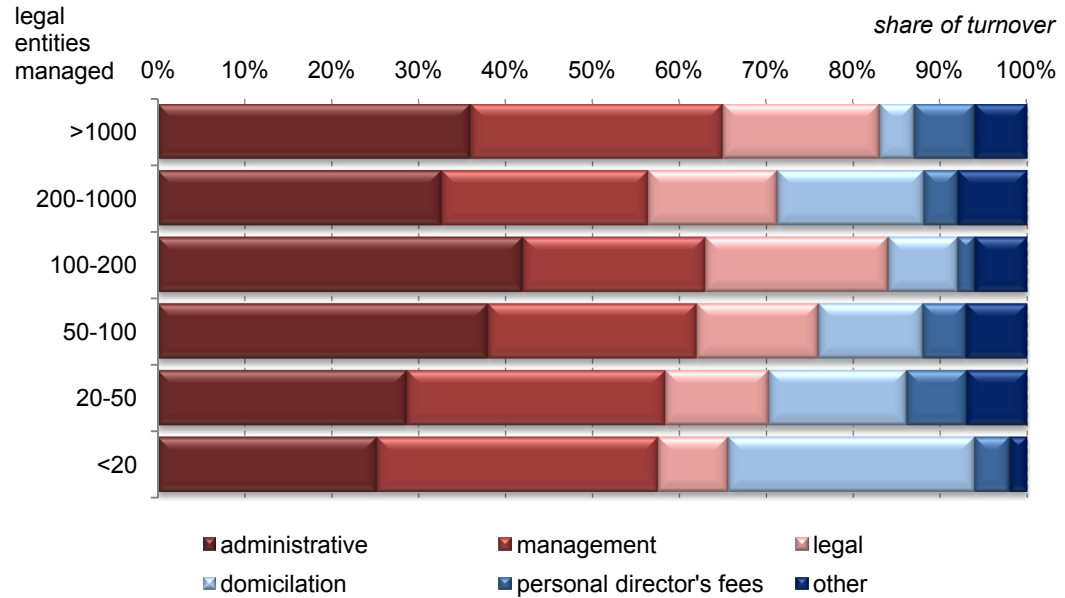
Figure 13 A small number of large trust firms dominates the market



¹⁴ The *Herfindahl-Hirschmann Index* is calculated as the sum of the squared market shares of all individual firms. It ranges from 0 to 1, with values close to zero denoting a very competitive market with many firms each having little market power, and 1 a market with only one monopolistic firm.

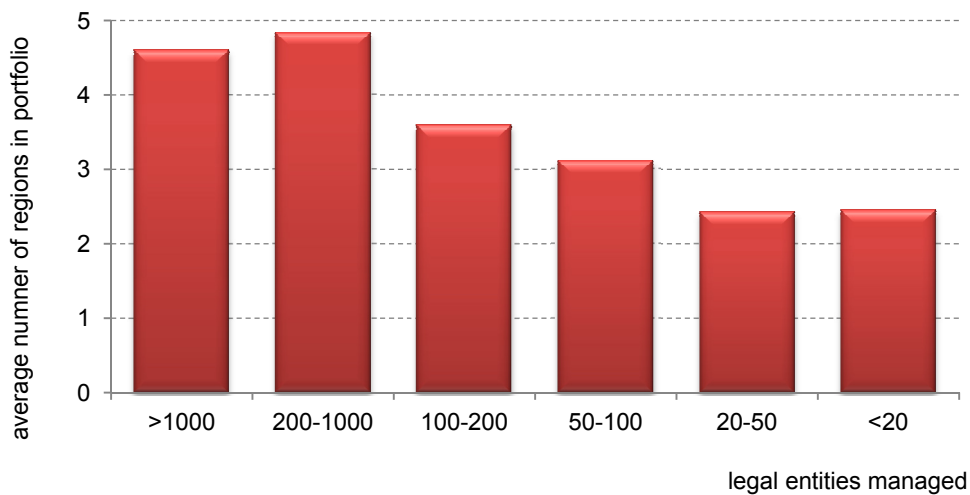
On aggregate, most trust firms offer a full range of services. Figure 14 shows that the share of administrative, management and legal services increases with the size of the trust firm. Domiciliation fees are more important for smaller firms.

Figure 14 Services are scale independent



If the services of large and small firms do not differ, the regional focus does. Figure 15 shows the average number of regions (as defined in Figure 3) the clients of trust firms origin from. Large firms on average have clients with UBOs from more than four regions. Medium sized trust firms on average have clients in three regions, small firms on average in 2.4 regions.

Figure 15 Large firms have worldwide client base, small firms have a regional focus



4 Benefits for the Netherlands

The Netherlands offers foreign companies an attractive environment for establishing financial structures. What does the Netherlands get in return?

4.1 Financial revenues

According to the Dutch Central Bank (DNB, 2007b), the financial contribution of the trust industry to the Dutch economy is threefold: (i) tax payments by legal entities managed by trust offices on financial flows channeled through the Netherlands; (ii) turnover from trust offices located in the Netherlands; and (iii) the value of additional services purchased by clients of trust offices in the Netherlands. Since turnover and profits of professional service providers are taxed, these services also add to total tax revenues.¹⁵

As sketched in Chapter 3, total turnover of the Dutch trust firms amounts to an estimated 364 million euro, and turnover of additional service providers to another 254 million euro. In aggregate, that is 618 million euro. This turnover leads to an estimated tax payment of 129 million euro.

The legal entities managed by the trust firms pay taxes in the Netherlands. The estimated tax payment by legal entities managed by trust offices on financial flows channeled through the Netherlands is about € 890 million. Total tax revenues thus amount to just over one billion euro.

Table.1 Tax revenues for the Dutch state stemming from the trust industry

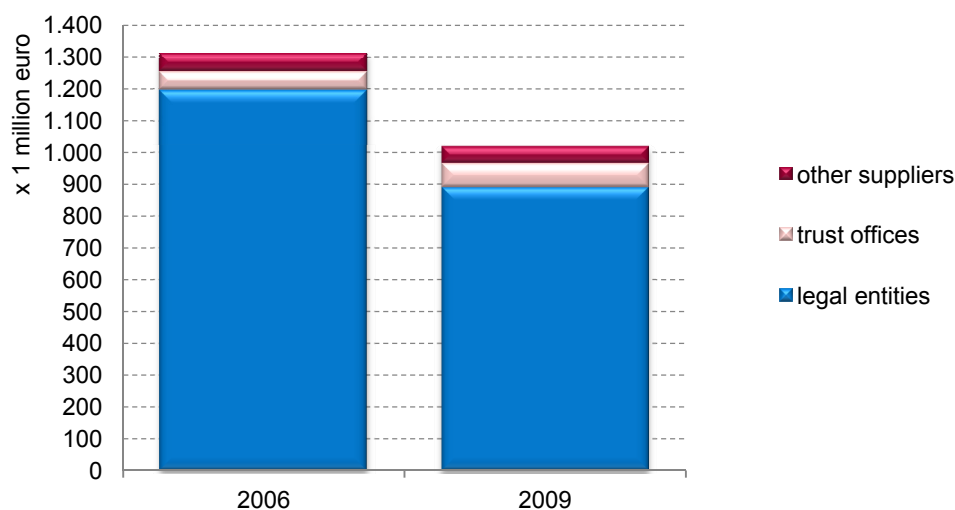
	2006	2009	growth
tax payments by legal entities	€ 1 195 million	€ 890 million	-26%
tax payments by trust offices	€ 57 million	€ 76 million	+33%
tax payments by additional suppliers	€ 58 million	€ 53 million	-9%
total tax revenues	€ 1 310 million	€ 1 019 million	-22%

The differences in tax revenues between 2006 and 2009 reflects the shift in activities and services mentioned earlier. Caused by the recession, the economic activities of MNCs decreased, leading to significantly lower tax payments: minus 26 percent, 305 million less as compared to 2006.

In the activities of the trust industry as a whole, trust firms and advisors, there has been a shift from legal and tax advice to administrative and domiciliation services. Accordingly, estimated tax payments by specialized advisors and suppliers decrease with nine percent, or five million euro. The trust firms see turnover increasing, and pay substantially more taxes than in 2006: 19 million euro, or plus 33 percent. The net effect is negative. Total tax payments induced by the trust industry are in 2009 291 million euro lower than in 2006: minus 22 percent.

¹⁵ The figures reported in this report indicate the size of the trust industry. Taxes and employment effects are not *net* incremental impacts on the Dutch economy: if there were no trust services, the professionals who now deliver management and other services, would add value in another way. However, the high share of foreign employees (about one quarter of the professional staff with the trust firms) denotes that the trust industry brings economic activities that otherwise would not have taken place.

Figure 16 Tax payments induced by the trust industry



4.2 Employment and other revenues

The trust sector comes with about 3 500 high-quality jobs, 2 200 with the trust offices and another 1 300 with specialized advisors, in the financial and legal industries. In 2009, the combined financial and legal sector in the Netherlands counted approximately 47 000 jobs.¹⁶ The trust industry (direct and indirect) counts for 7.5 percent of total jobs in the relevant sectors.

There is wide variety of other sectors that benefit from the trust industry. The trust sector is an industry characterized by intensive business travelling. Trust employees visit their foreign clients on a regular base. Foreign clients visit their trust suppliers in the Netherlands on average once a year, with two representatives. The impact of the trust industry on the travel and hospitality sector (flights, taxis, hotels, restaurants) is substantial, although hard to quantify. Earlier calculations (Van den Berg *et al.*, 2008) counted to an amount over 10 million euro spent annually by visiting clients of trust firms. That comes down to approximately 200 jobs in the Dutch (mainly the Amsterdam) hospitality sector.

The Dutch Chambers of Commerce benefit from the trust industry, by the collection of contribution fees. The Chamber of Commerce in Amsterdam charges € 120 per entity, the Chamber of Commerce in The Hague charges € 145. The 20 000 entities in the Netherlands contribute about 2.4 million euro to the Dutch Chambers of Commerce.

The most important contribution of the trust industry is its contribution to the position of the Netherlands as a financial hub. With 3 500 highly qualified jobs and over 16 000 international clients, many of them multinational corporations, the trust industry plays a vital role in shaping the Netherlands as an international center for high quality financial services and trade.

¹⁶ Source: Lisa.

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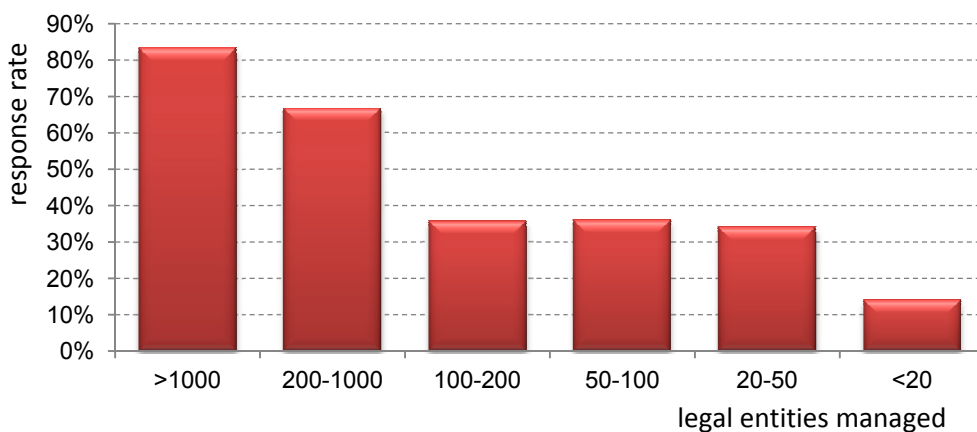
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Appendix A Extrapolation

The figures presented in this report are based on a survey among the ASTO-licensed trust firms in the Netherlands. 51 of the 176 trust firms responded, leading to a response rate of 29 percent. In order to estimate the number of firms in the various size brackets (size defined by the number of legal entities managed), the distribution of the firms in the sample was adjusted to the results of a survey of DNB among ASTO-licensed firms, held in 2010. In the adjustment process, the number of legal entities in the portfolio acted as gauge.

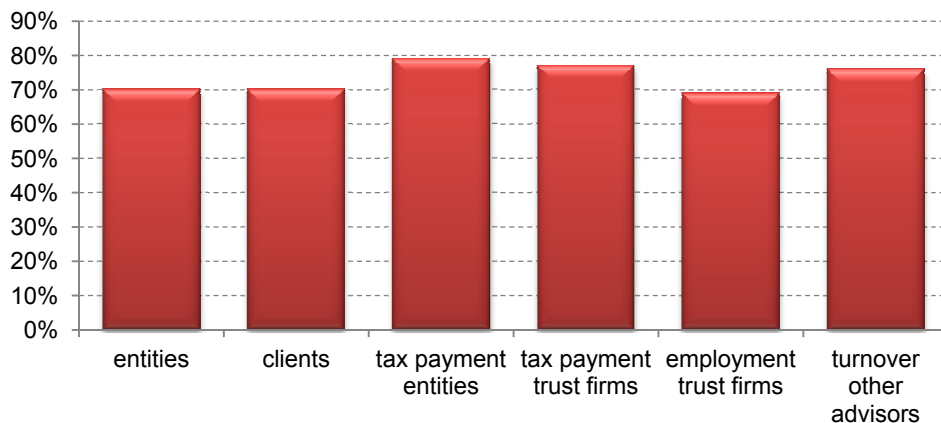
The response rate varies by firm size: among the largest firms the response rates exceeds eighty percent. Of the medium sized firms (50-200 legal entities managed) about one third responded, of the smallest firms only fourteen percent.

Figure 17 Response from large trust firms satisfactory



In order to extrapolate the survey data to sector totals, a calibration process was carried out in which the total number of 20.100 legal entities (a number reported by the Dutch Central Bank) served as focal point. Several ratios per size bracket (e.g. number of entities per employee and tax payment per entity) were used to construct totals for employment, turnover and tax payment.

Figure 18 Hard figures available on 70 percent+ of total value



Given the high response rate among the large trust firms, for most variables the share of actual observed data (e.g., data of firms in the survey) in the extrapolated totals is high: it lies between seventy percent (legal entities and clients) and 79 percent (tax payments by legal entities). Since there is little information on small firms, the accurateness of the extrapolation is unknown. However, since the uncertainty concerns only about thirty percent of the extrapolated total value of the industry, the impact of this uncertainty is relatively small. Suppose the presented extrapolations fall into a confidence interval of thirty percent (i.e. the true value lies somewhere in the range of 70 or 130 percent of the presented estimation), the confidence interval for the estimation of the total value boils down to fifteen percent: the actual value lies in the interval from 93.5 to 107.5 percent of the presented value.

Large trust firms dominate the market, as was shown in Figure 13: only three percent of the firms together service nearly fifty-five percent of the legal entities. Large firms are also over-represented in the sample. Thus the extrapolated figures mainly concern medium sized and small trust firms. The breakdown shown in this report (e.g., UBOs by region, turnover by type of service) are dominated by data of the large trust firms. The data do not allow for a reliable breakdown of various distributions (e.g. UBOs by region) between large, medium sized and small trust firms.

Appendix B Tables

Table 2: Firms, client and entities

	value 2009	value 2006	absolute growth	relative growth
firms	176	141	35	+25%
clients	16.400	16.000	400	+3%
legal entities	20.110	20.000	110	+1%

Table 3: Value for the Dutch economy

x 1 million euro	value 2009	% 2009	value 2006	absolute growth	relative growth
taxes	1.019	62%	1.310	-291	-22%
turnover trust offices	364	22%	242	122	+50%
turnover other services	254	16%	244	10	+4%
total	1.637	100%	1.796	-159	-9%

Table 4: Employment

	value 2009	% 2009	value 2006	absolute growth	relative growth
trustoffices	2.205		1.700	505	30%
other suppliers	1.280		1.300	-20	-2%
Total	3.485		3.000	485	+16%
<i>with trust offices</i>					
management	270	12%			
account managers	1.370	62%			
clerical	565	26%			
foreign professional staff	420	26%			
<i>professional staff by education</i>					
academic	565	34%			
(higher) professional	755	46%			
(intermediate) vocational	325	20%			
Total	1.645	100%			
<i>professional staff by background</i>					
economic	470	28%			
Legal	450	27%			
auditing	205	12%			
fiscal	110	7%			
other	415	25%			
total	1.650	100%			

Table 5: Turnover trust offices by type of service

x 1 million euro	value 2009	% 2009	value 2006	absolute growth	relative growth
administrative / accounting / auditing	128	35%	92	+36	+39%
management services	99	27%	77	+22	+29%
legal support	60	16%	24	+36	+150%
domiciliation fee	33	9%	19	+14	+74%
directors fee	21	6%	19	+2	+11%
other support	24	7%	10	+14	+140%
total	364	100%	242	+122	+50%

Table 6: Turnover trust offices by type of UBO

x 1 million euro	value 2009	% 2009	value 2006	absolute growth	relative growth
multinational	120	33%	92	+28	+30%
non-enterprise	98	27%	48	+50	+104%
listed multinational	76	21%	44	+32	+73%
financial	61	17%	53	+8	+15%
other	9	2%	5	+4	+80%
total	364	100%	242	+122	+50%

Table 7: Turnover trust offices by type of UBO

x 1 million euro	value 2009	% 2009	value 2006	absolute growth	relative growth
EU (non Dutch)	139	38%	111	+28	+25%
Europe non-EU	74	20%	27	+47	+174%
USA / Canada	55	15%	44	+11	+25%
Asia / Oceania	44	12%	29	+15	+52%
the Netherlands	28	8%	15	+13	+87%
Latin and Central America	17	5%	15	+2	+13%
Caribbean	2	1%	1	+1	+100%
Africa	2	1%	2	0	0%
total	364	100%	242	+122	+50%

Table 8: Value of professional services

x 1 million euro	value 2009	% 2009	value 2006	absolute growth	relative growth
<i>in the Netherlands</i>					
tax advisory	107	42%	123	-16	-13%
legal / notary offices	61	24%	66	-5	-8%
accounting / auditing services	57	22%	45	+12	+27%
banking services	29	11%	10	+19	+190%
total	254	100%	244	+10	+4%
<i>abroad</i>					
tax advisory	5	19%	8	-3	-38%
legal / notary offices	8	31%	56	-48	-86%
accounting / auditing services	3	12%	5	-2	-40%
banking services	10	38%	7	+3	+43%
total	26	100%	76	-50	-66%

Appendix C Interview partners

Mrs. M. Bolland – Fortis/ABN

Mrs. J. van de Burgt, Mr. H. Knuvers – Capita Fiduciary

Mr. S. Keereweer, Mr. A. Sonnevile – DNB

Mr. H. Leijdesdorff – IMFC

Mr. E. Michels – KPMG

Mr. A. Nagelmaker – ANT Trust, VIMS

Mr. C. Roelofs – Intertrust

Mr. J.R. de Vos van Steenwijk – TMF Group, VIMS

Mr. J. Willems – FTC Trust, DFA



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